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2 May 1955

Mr. Everett F. Drumright  
American Consulate General,  
Hong Kong

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Dear Drum:

As a result of his conversation with you [REDACTED] in March, Bob Amory has suggested that I write you concerning "the incongruities and discrepancies" between the Consulate General's estimates and the Chinese Communist figures of industrial production given in Chou En-lai's speech of 23 September 1954. This I am more than glad to do.

The attached memorandum discusses the differences between the ConGen and the ChiCom figures for six of the eight commodities reported in Chou's speech. The importance of these differences, in my humble opinion, lies more in the assumption on the part of the U.S. analysts that there is an important propaganda element in the Chinese Communists' industrial statistics above and beyond the factual content of their reports, which necessitates a downward adjustment of current ChiCom production figures. Our experience with economic developments in Communist countries is sufficient to indicate that failures in realization of goals have occurred when the Communists made procurement aims the basis of their announcements of achievements, and that these failures have been evident in respect to agricultural production but hardly at all in respect to industrial production where the Communists can completely audit the results. The one field of Communist industrial reporting where the available information is most inadequate is in respect to quality, and it is in this respect that we find the greatest hiatus in information concerning industrial progress in Communist China. If it is granted that the Chinese Communists have realized the production of the fairly simple industrial commodities which they have claimed up to the present, it must be expected that the greatest difficulties lie ahead when they attempt to convert into finished producers goods of more complex types the raw materials and semi-finished industrial products which they have produced up to the present.

Bob Amory's notes on his conversation with you are not entirely clear as to the basic reasons for the ConGen's rejection of ChiCom production figures, and the attached memorandum has taken into account the ConGen's despatches of the past several years in attempting to understand those reasons. Two of the points which Bob

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mentioned refer to (a) the size of the rehabilitation and construction projects thus far completed and (b) the fact that the Chinese must pay for Soviet assistance whereas their ability to pay is extremely limited. The first point is dealt with in the attached memorandum. The second is one that cannot be adequately treated here without reference to the volume of intelligence information which is considered in the preparation of our reports. On the basis of our information, we are inclined to give credence to an inference in the Pravda article of 28 September 1953 that in the Soviet aid construction projects the aid begins with planning and design, and continues through to installation of equipment and supervision of initial operations. This suggests that the results of the pay-as-you-go policy will be observable in increased production only as the effects of the investment payments made earlier are realized from projects completed toward the end of the Five Year Plan.

I am enclosing a copy of the following documents: (a) "Revised Report of the State Statistical Bureau of the Central People's Government on the Reconstruction and Development of the National Economy and of Culture and Education in 1952," which was published in the Jen-min Jih-pao, 28 September 1954 and which so far as I know has not been quoted by the AmConGen. (b) CIA/RR PR-39, 27 November 1953, "The Electric Power Industry in Manchuria"; (c) CIA/RR PR-86, 10 November 1954, "Electric Power in China Proper"; and (d) CIA/RR 33, 30 April 1954, "The Economic Development of Communist China Through 1957." The last-mentioned report is already in process of revision and a copy of the new publication will be sent to you when available.

Now that the way is open for direct correspondence, I sincerely hope that we may exchange letters frequently and bring about a reconciliation of the estimates of economic developments on the Mainland, between our respective offices.

With warm regards, I am,

Yours sincerely,

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